



## **FISCAL YEAR 2002 FEDERAL STUDENT AID ANNUAL PERFORMANCE REPORT**

The year 2002 marked the fourth year since the establishment of the Department of Education's Office of Federal Student Aid (FSA) as the government's first performance-based organization (PBO). The establishing legislation was included as part of the Higher Education Amendments of 1998 and requires FSA to improve the delivery of federal financial aid services by responding to ever-changing market forces and to develop a more results-oriented management structure and approach. Specifically, Congress set out four goals for the PBO to address in its annual performance plans:

- Improve service to students and other participants in the student financial aid programs, including making the programs more understandable to students and their parents;
- Reduce the costs of administering the programs;
- Improve and integrate the information delivery systems that support programs; and
- Develop an open, common and integrated delivery system and information system for the programs.

A key mission of FSA continues to be the effective and efficient delivery of student aid to expand access to higher education. Since the organization of the PBO, FSA has made significant progress in improving the student aid programs and the delivery processes for students, schools, and financial institutions.



## **BUSINESS OPERATIONS**

FSA manages and administers the postsecondary student assistance programs authorized by the Higher Education Act of 1965, as amended. They include the William D. Ford Federal Direct Loan Program, the Federal Family Education Loan Program (FFEL), the Federal Pell Grant Program, Campus-Based Programs (the Federal Perkins Loan, Federal Work-Study, and Federal Supplemental Educational Opportunity Grant programs) and Leveraging Educational Assistance Partnership and Special Leveraging Educational Assistance Partnership program (LEAP/SLEAP). FSA serves, supports and monitors the participants in these programs, including: over 6,000 institutions, more than 4,000 lenders and 36 guaranty agencies, and dozens of accrediting agencies, as well as secondary markets, third party servicers and other organizations, including states. FSA directly manages or oversees the management of approximately \$280 billion (total student loans outstanding) representing about 100 million accounts. FSA's 2002 fiscal year (FY) high-level business operations statistics are summarized below.

### **Program Volume**

- Disbursed nearly \$11.6 billion in Federal Pell Grants to 4.8 million recipients;
- Disbursed \$11.7 billion in new Direct Loans to 1.8 million borrowers;
- Supported the delivery of \$28.6 billion dollars of new Federal Family Education Loans to 7.3 million borrowers;
- Disbursed 2.9 million Campus-Based awards totaling nearly \$3.4 billion;
- Disbursed approximately \$8.8 billion in Direct Consolidation Loans to 362,000 borrowers; and
- Disbursed \$67 million in LEAP/SLEAP funds to state grant agencies.

### **Service Operations**

- Serviced the \$80 billion Direct Loan Portfolio containing 6.1 million borrower accounts;
- Processed nearly 25 million payments totaling over \$11 billion in Direct Loan payments from borrowers;
- Resolved nearly 28 million inbound and outbound customer service calls across all call centers;
- Managed the approximately \$12.7 (principal and interest) billion defaulted loan collection portfolio containing over 2 million active borrower accounts and received \$1.0 billion dollars in payments;
- Processed over 15,000 lender and guaranty agency forms which resulted in over \$5 billion in net payments; and
- Processed over 450,000 Direct Consolidation Loan applications.



**Program Integrity**

- Performed 387 reviews of guaranty agencies, lenders and servicers; and
- Resolved over 3,000 school compliance audits.

**FISCAL YEAR 2002 PERFORMANCE PLAN**

Last year, FSA developed a Performance Plan for FY 2002 that detailed performance measures and projects for FSA to accomplish (Appendix A). The Plan addressed integration and technology solution initiatives related to FSA systems, improved program integrity, reduced program administration costs, improved human capital management, and improved products and services. The components of the Plan aligned with the PBO legislation, the President's Management Agenda, the Department's Strategic Plan and *Blueprint for Management Excellence*, plus addressed the issues responsible for FSA's inclusion on the General Accounting Office (GAO) High-Risk List. Overall, FSA established 116 projects/performance measures for FY 2002. During the year, two of the FSA projects were determined not to be the sole responsibility of FSA and were removed from FSA's Performance Plan. Of the 114 remaining projects/performance measures, 108 were completed or met in FY 2002 for a 95 percent completion rate. One project, stating that FSA would be removed from the GAO High-Risk List, could not be completed in FY 2002 and is the core of FSA's FY 2003 Performance Plan. Another major project, to obtain a clean audit, was completed in late January 2003 when the Department and FSA each received a clean audit opinion (Appendix B – FY02 FSA Annual Financial Report). This opinion was the first clean audit in many years and only the second in the history of the Department. It is a crucial milestone in the Department's efforts toward creating a permanent culture of accountability. In addition, this accomplishment is critical to FSA's efforts to be removed from the GAO High-Risk List. Most importantly, it reassures taxpayers that resources are being managed wisely by the Department and FSA in the delivery of federal student aid.

In September 2002, a new Chief Operating Officer was brought on board to lead FSA into and through the next stage of FSA's growth as a performance based organization. The first phase of FSA's development was principally focused on workforce education on what it meant to be part of a performance based organization, the organizational culture change that was necessary to align the culture with performance expectations, implementation of supporting infrastructure and processes, and beginning the reengineering of legacy systems and business processes.

The next stage of FSA's growth as a PBO is focused on optimizing daily business operations, streamlining business processes, continued system reengineering and renovation, and managing and supporting our workforce more effectively. Five critical objectives have been defined for FSA to perform against beginning in FY 2003, and as a result, FSA's FY 2003 Performance Plan has been constructed around these objectives. The Performance Highlights portion of this report is presented in the context of these five objectives:



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- Integrate FSA systems and provide new technology solutions;
- Improve program integrity;
- Reduce program administration costs;
- Improve human capital management; and
- Improve products and services to provide better customer service.

### PERFORMANCE HIGHLIGHTS

#### **OBJECTIVE ONE: *Integrate FSA Systems and Provide New Technology Solutions***

Congress designated FSA as a PBO, in part, to encourage the integration of the many, disparate information systems used to deliver student financial aid and to deliver technology solutions to current day problems. FSA has a plan to integrate systems and improve services in delivery of Title IV aid to America's students. The Integration Vision is built on four strategic themes:

- Organize and structure business processes as a financial services operation;
- Work with, and through, trading partners in the education and financial communities;
- Focus on customer service excellence, cost effectiveness and technology leadership; and
- Perform functions as outlined in the original enabling PBO legislation.

The key objectives of FSA's system integration efforts are to improve efficiency and productivity, reduce system maintenance and overhead costs, provide greater ease of use to customers and other users of the system, and to strengthen program integrity and oversight by providing more timely, more accurate, and better access to data. In FY 2002, FSA's Plan called for the delivery of several new integration solutions. These solutions are discussed below.

#### **FSA Financial Management System– Phase IV**

The Financial Management System (FMS) is an accounting system solution to help FSA maintain more accurate and reliable financial information. The implementation of FMS was planned to be accomplished in several phases. The fourth phase of the implementation was planned for FY 2002, while the first three phases were successfully accomplished in FY 2000 and FY 2001. The fourth phase, completed as planned in FY 2002, enabled FMS to support all FSA programs. Before FMS, all program financial information was channeled through the Department of Education's Office of Chief Financial Officer where the information was consolidated and reported on the Department's financial statements. Because all of the financial information was not available in one



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central location and was aggregated, it was difficult for FSA to have the detailed level of information necessary to analyze and manage its business functions.

With the implementation of FMS, FSA, for the first time, maintains detailed accounting records that are used to better manage its operating partners and the guaranty agencies. With consistent, centralized data, FSA can control quality, minimize mistakes caused by manual processes, and better plan for financial needs. FMS allows the assessment of business goals through automated analyses of the financial data. FMS also allows states and guaranty agencies to electronically report financial information to FSA. Phase IV of FMS updated the interfaces with FSA's new program systems implemented by FSA in FY 2002. These systems are the Common Origination and Disbursement (COD), eCampus Based and the Lender Payment Process System. The addition of these systems in the Phase IV implementation provided a single point of funding and financial data reporting for FSA programs.

### **Lender Payment Process Redesign**

On September 30, 2002, FSA launched the Lender Payment Process Redesign. As part of its FY 2002 Plan, FSA redesigned its Lender Payment Process into a single, integrated Web-based payment and reporting process that allows participants to choose between two options: on-line data entry or on-line data transfer. FFEL participants electronically complete and submit their Lender Interest and Special Allowance data. Profile data entered into the Lender Applications Process (LAP) is converted into the Lender Reporting System (LaRS) and saved. This new process eliminates the need for a lender to resubmit profile data on a quarterly basis. It thus provides an automated business process that eliminates duplicate data entry, is virtually error-free, and offers faster quarterly processing time as a result of minimal manual intervention.

### **Common Origination and Disbursement**

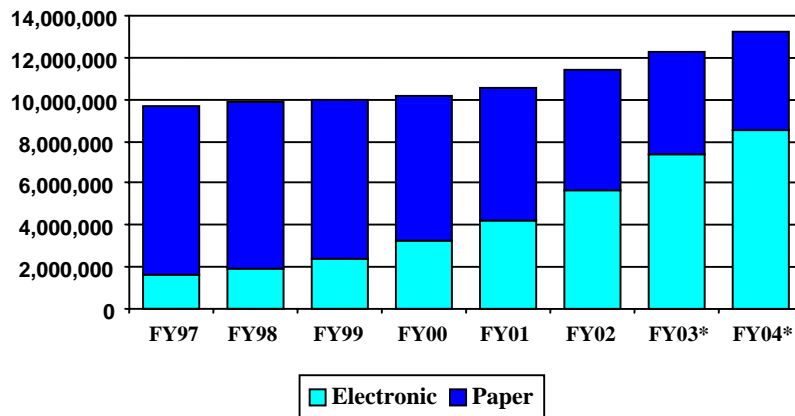
In April 2002, FSA implemented the first phase of the COD system that integrates Direct Loans and Pell Grant processes into a single delivery solution. This new system provides the financial aid community with a simple, accurate and convenient method of processing Pell Grants and Direct Loans and ultimately replaces the Pell Grant (RFMS) and Direct Loan Origination (DLOS) systems, which will be retired in 2003. COD is fully Web-enabled, processes transactions faster, reduces costs, eliminates duplicate data and creates a more student-centric process for schools and FSA staff. The system improves program integrity through automated reports and tools that allow schools and FSA to monitor funds more timely and efficiently. COD has the capability to verify with CPS that a student has applied and is eligible for federal student aid, thereby eliminating the need for schools to return this data back to the Department of Education.



## Electronic Free Application for Federal Student Aid Filings

FSA continued to expand outreach efforts to increase the number of students filing their Free Application for Federal Student Aid (FAFSA) electronically. The built-in online edits provided for FSA's FAFSA on the Web product increase the accuracy of data submitted by students and parents on their financial aid applications and reduce the number of corrections that need to be made, and thus shorten the timeframe for completion. The electronic version of the FAFSA can also be processed faster and quickly deliver a calculation of the expected family contribution (EFC). There were a total 12.2 million paper and electronic FAFSA applications processed in FY 2002. In 2002, electronically filed FAFSA's totaled 7.3 million, representing nearly 60 percent of all processed applications. This increase is 35 percent above FY 2001, in which 5.4 million applications were filed electronically.

### FAFSA Processing Electronic vs Paper



\* projected FAFSA volume

## Electronic Signature

The use of electronic signatures was first introduced by FSA with the implementation of the Web-enabled version of the FAFSA, and was extended to the eMaster Promissory Note (eMPN) in 2001. In 2002, FSA extended the use of its enterprise-wide solution for electronic signatures to two additional business applications. The first application, the Electronic Cohort Default Rate (eCDR) is an early implementation of the Government Paperwork Elimination Act (GPEA). eCDR is more useful to schools and more timely, as well as more cost efficient for FSA. Before eCDR voluminous paper packages could be delivered to the main building of a school and take several days to reach the appropriate office on campus. Misrouting of paper on campus or to a third-party servicer resulted in documented instances of schools missing the appeal deadlines. eCDR eliminates the misrouting problem by allowing schools to direct the electronic cohort



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default rate information to the most appropriate recipient. FSA incurred a one-time implementation cost for eCDR of approximately \$450,000. Since eCDR leverages existing technologies and processes, no additional maintenance costs are anticipated. In contrast, the paper process cost FSA over \$450,000 every year to print, package, mail, and track cohort default rates and reports to schools. It is anticipated that over the next ten years, over 4.5 million sheets of paper will be saved through eCDR.

The second application was the development of an electronic downloadable version of the Perkins Note, called Perkins eNote. With electronic signatures, student borrowers can complete all aspects of the loan process online at any time. FSA support of the use of electronic signature processes enables schools to save money through streamlined processes, and to provide students the instant access and on-line capabilities they expect. With the addition of the Perkins eNote solutions to the other existing electronic processes (eMPN, and FAFSA on the Web), much of the manual paperwork will be done electronically, saving FSA additional expenses. Schools will also benefit from decreased storage and retrieval costs of documentation.

### **OBJECTIVE TWO: Improve Program Integrity**

FSA recognizes the inherent risk in providing billions of dollars of grants and loans, through thousands of intermediaries to millions of students who may not be credit-worthy. However, the Department is aggressively managing this challenge in a manner that ensures access to postsecondary education while reducing the vulnerability of student aid programs to fraud, waste, error and mismanagement. All areas of FSA are focused on making and sustaining improvement in program and data integrity. In FY 2002, FSA provided technical assistance to 110 schools and conducted 245 on-site program reviews. This number represents a 39 percent increase in on-site program reviews over FY 2001. In addition to performing program reviews, audits, school training, and reviews of lenders, guaranty agencies and servicers, FSA continued to minimize non-compliance and reduce default rates while still promoting the widespread use of the Title IV programs by completing the following in 2002.

#### **Foreign Schools Eligibility**

Weaknesses in foreign school eligibility processes were highlighted to FSA by GAO in FY 2002. FSA strengthened the foreign school eligibility process through several actions, including reviewing the internal controls relevant to foreign school eligibility. The Case Management and Oversight teams revised the internal certification checklist, which is the instrument for capturing certification documentation and is part of the official school file. FSA performed 100 percent validation of country approvals for all participating schools in 41 foreign countries. This process did not identify any schools that were ineligible. In addition, FSA completed a student financial aid handbook specifically for foreign schools and delivered this handbook to all foreign schools in the spring of 2002. Finally, eight technical assistance sessions for foreign schools were conducted in Australia, the United Kingdom, Puerto Rico and Canada that covered



foreign school and student eligibility requirements, FFEL requirements, and reporting requirements.

## **Reducing the Student Loan Cohort Default Rate**

The student loan cohort default rate continues to remain at historically low levels. The cohort default rate for FY 2000 – the most current data available – was 5.9 percent. FSA implemented additional tools for identifying delinquent borrowers and collecting debt. For example, the Late Stage Delinquency Program enlists schools in finding and counseling severely delinquent borrowers – and the National Student Loan Data System provides schools with data on individual students scheduled to go into repayment so that they can counsel borrowers on their financial obligations. FSA's debt management strategy emphasizes mitigating risk through portfolio management and tools for default prevention, including the following:

- FSA established a multi-year program to further reduce cohort default rates. This program includes implementing a pilot using the Equifax National Council of Higher Education Loan Programs (NCHELP) Credit Modeling tool to determine the priority of due diligence effort and the effects of increased efforts on collections.
- FSA is creating a consortium of key guaranty agencies and financial institutions to share information relating to default aversion and best practices and new technologies.
- Further, FSA identified schools that had potential compliance problems or high default rates, including schools with Perkins' Cohort Default Rates greater than 50 percent over the past three years.
- The second annual National Default Prevention Day (NDPD) was held on August 1, 2002, with over 2,000 participants at twelve locations across the country. NDPD 2002 was a partnership with the Direct Loan, FFEL and school communities. The full-day program familiarized participants with the wide variety of default management and prevention tools available. The participants left the program with important information on how to provide borrowers with timely information on their loan debt, counseling, and the steady follow-up needed to maximize repayments and minimize defaults.

## **Improved Management of Defaulted Loans**

- The National Directory of New Hires (NDNH) Database contributed greatly to the increase in collections. This Database houses employment and income information of all persons employed in the United States. In 1999 Congress amended the Social Security Act to allow for information comparisons and disclosure of the NDNH Database for enforcement of obligation on education loans and grants by the Department of Education. ED conducted the first comparison against the NDNH Database in December of 2000. Since that time, a total of seven matches have occurred between HHS and ED.



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- Currently, more than 90 percent of the guarantors participate in the NDNH program. Over 1.8 million accounts have been updated with the NDNH data since the inception in 2000. In FY 2002, over \$500 million in collections were recovered through use of the NDNH Database.
- The FSA default portfolio at the beginning of FY 2002 was approximately \$12.7 billion. During FY 2002 default collections totaled nearly \$1 billion. These collections include the capture of income tax refund checks, wage garnishments, legal proceedings and other collection tools. The result has been a default recovery rate of 7.61 percent, exceeding the FY 2002 goal of 7.2 percent.

### **Reducing Overawards in the Pell Grant Program**

FSA completed a project to identify, measure and monitor applicant and payment error in the Pell Grant Program. The effort also focused on identifying actions to improve the verification system and to implement other informational checkpoints in the student aid process that are intended to reduce award error. The project determined, for the first time, the Pell overaward error rate to be 3.3 percent. FSA will continue its work to ensure that Pell Grant recipients are awarded accurate grant amounts based on their eligibility under statutory need analysis calculations.

### **Electronic Document Imaging**

FSA created an Electronic Document Management System (EDMS) to transform all of the existing paper school records – five million pages – into electronic images. FSA staff and Education Credit Management Corporation edited over 7,000 school files in preparation for scanning. All school files have now been scanned and are available to FSA staff all across the country. FSA staff can now retrieve any school record from their desktop. This system eliminates photocopying, costs of mailing to regional offices, and lost documents, and reduces the number of phone calls to schools.

### **Oracle General Ledger System**

Successful data integration and flow between the FSA-FMS and the Department's Office of the Chief Financial Officer (OCFO) Oracle General Ledger system was achieved with the implementation of Oracle's Federal Financials software package. This integration completes the linkage between FSA's FMS and the OCFO's Oracle system to provide for a fully integrated General Ledger that supports all FSA programs in the ED Ledger and will help ensure a clean audit opinion.



## **Common Guaranty Agency Performance Metrics**

By working with the guaranty agency (GA) community, FSA was able to establish common performance metrics primarily in the areas of delinquency, default aversion and collections through the use of Voluntary Flexible Agreements (VFA). The measures include analyzing the dollar ratio of lender held loans to the total GA loan portfolio, utilizing the reinsurance trigger rate to monitor the GA's success at default aversion, and determining GA effectiveness in collection recoveries in order to monitor the GA's ability to recover funds from its defaulted loan portfolio. These performance metrics are compared to the pre-VFA performance in order to assess whether the VFA GA performance has improved.

## **Perkins Loan Program**

The Perkins Loan Program's Excess Liquid Capital Project has been in effect for many years, although the automated tracking system is only five years old. In FY 2002 FSA identified excess federal Perkins Loan funds on over 700 campuses around the country. Initial contact with the schools resulted in over \$9 million in voluntary payments to the Department of Education and a commitment for over \$3.9 million to be put back into active use for loans to needy students.

### **OBJECTIVE THREE: Reduce Program Administration Costs**

In FY 2002 the Department of Education received \$627 million to support postsecondary education program management activities in FY 2002. The \$627 million was expended under four major categories:

- \$395.7 million was spent on information technology contracts. These are the private-sector contracts to originate and service Direct Loans – process applications for student aid and payments to students, schools, guaranty agencies, and lenders – and collect defaulted loans. The cost of the largest of these contracts is driven by workload volume, which increases each year. Over the past few years, FSA has made significant investments in new technology solutions which streamline processes and increase efficiency so that greater workloads can be accommodated within a stable and/or reduced budget structure.
- \$104.3 million was spent on personnel compensation and benefits.
- \$58.8 million was spent on other operating expenses, such as printing, travel and other support activities.
- \$68.2 million was expended to support continuing efforts to integrate and modernize student aid systems and processes.



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For projects completed in FY 2002, cost reductions were achieved in many areas. These reductions were used to help fund the efforts to integrate and modernize student aid systems and processes. Cost reductions were recognized from the following:

- The unit cost for calls received at 1-800-4FEDAID was reduced 2 percent from \$2.80 per call last year to \$2.74 in FY 2002. There were a total of 7,845,491 calls answered in FY 2002. In addition, the renegotiation of the Federal Student Aid Information Center portion of the Public Inquiry Contract has resulted in a total savings of \$880,159.00.
- The Virtual Data Center (VDC) hosts most of the Title IV business applications and systems that support the delivery of Title IV aid. The VDC provides FSA with a secure operating environment with systems monitoring and staff coverage at all times. In 2002, FSA restructured and renegotiated this contract with the service provider which resulted in reduced overall costs for the same service levels previously provided under the high cost contract. This restructuring reduced VDC expenditures by over 40 percent, from \$80 million in FY 2001 to \$54 million in FY 2002.
- The implementation of the Credit Management Data Mart (CMDM) in the spring of FY 2002, together with FMS, provide FSA with a variety of financial reporting and loan portfolio management tools not previously available through the Direct Loan's Financial Accounting and Reconciliation System (FARS). Once the CMDM became fully operational, FARS was retired in August. The projected net savings due to the retirement of FARS is between \$8- and 11 million by FY 2005 with an annual projected savings of \$4 million per year thereafter.
- FSA reduced the overall FY 2002 documents printing budget by \$1,714,073, a nearly 18 percent reduction over the FY 2001 budget. This reduction was achieved through the promotion of FSA's Web products and services, and through more efficient inventory planning with internal customers to reduce the needed quantities of print publications.
- The number of lenders using Electronic Funds Transfer (EFT) for Direct Loan Consolidation increased nearly 600 percent from 13 in FY 2001 to 76 in FY 2002. EFT is a highly efficient process that permits lump sum payoff amounts to be deposited directly into the lender's bank account. The lenders receive an electronic manifest of loan payoff amounts. The EFT initiative directly saved \$23,174 in the cost of purchasing check stock and was one of the electronic initiatives allowing FSA to renegotiate the Direct Loan Consolidation contract saving more than \$10 million in FY 2002.
- FSA migrated 100 percent of its partner interfaces from its proprietary Title IV Wide Area Network (TIV WAN) to Internet transmissions. All FSA data transmissions with schools are now done via the Internet rather than using an expensive private network. By utilizing the share-in-savings methodology, FSA



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is only responsible for costs of operations. For FY 2001 and FY 2002, FSA has saved over \$3.6 million under this contract.

### **OBJECTIVE FOUR: Improve Human Capital Management**

In February 2001, GAO added human capital management to the government-wide list of high-risk federal activities. FSA has taken this opportunity to redefine the way it manages human capital by investing in its workforce and building internal capacity. FSA is reshaping the organization using flexible tools to improve operations, retrain, and reward outstanding performance.

#### **One-ED**

FSA worked closely with other offices in the Department of Education on the One-ED transformation plan. One-ED articulates management goals and desired educational results to focus on citizens who are beneficiaries of successful education programs. It includes a Strategic Investment Process designed to enable the Department to systematically examine all the functions that are performed, while making any changes needed to ensure that services are provided to each other, our partners and the public with quality, timeliness and best value. FSA's human resources, training, audit liaison, and policy functions are part of Phase I of the One-ED initiative and staff members from these process areas are participating on these cross-functional teams to examine the work processes. Future phases of the One-ED initiative will include other FSA business processes.

#### **FSA Career Zone**

FSA University and FSA Human Resources launched the Career Zone in October 2001. The Zone is an employee development resource offering courses and training both from best-in-business vendors and in-house FSA experts, in formats that include classroom training, small group discussions, networking, and e-learning. More than 400 FSA employees have attended Career Zone courses including Project Management, Building a Business Case, Plain Language, Budgeting and Time Management. Career Zone Tech offerings include Data Warehousing, Section 508 requirements, and Data Architecture.

#### **Learning Coupon**

FSA University administers the Learning Coupon program. This program offers each employee up to \$500 to be applied toward the cost of outside training activities offered by vendors that meet certain learning criteria. The purpose of the coupon is to give employees more access to outside learning activities and encourage them to take responsibility for their own career development. It encourages employees to seek supplemental training to improve on-the-job performance. Each employee's chosen learning activity was approved by the employee's supervisor or training coordinator as



being job-related, career-path related, or mission-related. Four hundred and sixteen FSA employees used the Learning Coupon in FY 2002 for a total expenditure of \$177,810.00.

**OBJECTIVE FIVE: *Improve Products and Services to Provide Better Customer Service***

FSA continues to look to the private sector leaders in e-commerce and to follow the electronic services standards set by the lending industry in order to provide better products and improve service. A number of on-line capabilities were added or improved to give borrowers increased control over their student loan accounts while providing the necessary high level of security.

**Release of Web Portals**

The Students Web Portal has helped students interact with FSA, provides easier access to information and data, and allows for the electronic filing of the FAFSA. The release of the Financial Partners Web Portal for one stop access enables all FFEL participants to access regulatory, policy, project, planning, communications, calendar, interest rates, and deadline information as well as conduct business through Form 2000 for guaranty agencies, LAP/LaRS for lenders and LEAP/SLEAP for state grant agencies.

**Common Origination and Disbursement (COD)**

On April 29, 2002 FSA launched the Common Origination and Disbursement (COD) system as part of our system integration plan. COD integrates Pell and Direct Loan processes and offers schools easy access to simple, accurate and integrated student and program records. COD will ultimately replace RFMS and DLOS systems so that schools can send a "common record" to report both Pell Grant and Direct Loan data. For schools this integration means they have the ability to access aggregate information across programs providing a comprehensive view of the schools' transactions and funding information. Schools also have the ability to access the student's financial aid history online via a secure Internet accessible web site. FSA has also been working with the FFEL community to ensure that schools can use the common record to report FFEL information to lenders and guarantors. COD is fully Web-enabled, provides faster processing, reduces costs, eliminates duplicate data and creates a more student-centric process for schools and FSA staff. The system will improve program integrity with reports and tools that let schools and FSA monitor funds more efficiently.

**Re-engineered FAFSA-on-the-Web Product**

FSA re-engineered FAFSA-on-the-Web to include features based on customer requests, focus groups, and customer surveys. The completed, redesigned FAFSA-on-the-Web was put into production on January 1, 2002. The infrastructure was



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upgraded to make the application user-friendly and the technical platform was transformed to support the increase in web applications without degradation in service to the customer. An additional benefit to improving the Web application is displayed in the number of FAFSA inquiries that the call center received. In FY 2001 one call per 3.24 applications was received. For FY 2002, the rate has been reduced to one per 5.03 web applications.

### **Internet Billing**

FSA implemented Internet billing and online correspondence as part of the Direct Loan eServicing Initiative. This initiative provides borrowers a comprehensive single point of delivery of all servicing information to a borrower, and in a mode and time selected by the borrower. Since the Electronic Bill Presentment and Payment/Electronic Correspondence (EBPP/EC) was fully implemented in spring 2002, more than 36,000 borrowers have enrolled in Electronic Correspondence and more than 20,000 borrowers have enrolled in the Electronic Bill Presentment. Over \$75.6 million in Direct Loan payments have been processed using this new capability, and the average payment amount is higher than that through the other payment channels.

### **Financial Partners Data Mart Enhancements**

The Financial Partners Data Mart originally established the infrastructure for compilation and access to lender and guaranty agency data. It eliminated a legacy system and contractor-dependent processes and replaced them with user-owned data management. The Financial Partners Data Mart was enhanced in FY 2002 to provide self-monitoring and oversight tools, implement a guaranty agency scorecard for lender evaluation and facilitate data comparisons with FMS, NSLDS and the FFEL System.

### **FSA OMBUDSMAN REPORT**

The FSA Student Loan Ombudsman is required by the PBO legislation to attempt informal resolution of student loan borrower disputes. The office had a total of 16,707 inquiries in FY 2002, a 22 percent increase over the 13,611 received in FY 2001. Most of the cases are single-issue, information-based inquiries about loan status and related financial aid issues. These are resolved immediately.

The bulk of the Ombudsman activity involves disputes in which an ombudsman specialist works with the borrower, loan holder, schools, and other parties to gather facts, establish a common understanding of the problem and work toward resolution. It takes an average of 45 days to close these cases. Individual case issues are tracked to inform FSA leadership and loan holders so that corrective action can be taken to prevent similar situations and the potential for program change can be evaluated. The top five case issues have remained similar since FY 2000, the first year of operation. In order of frequency they are:



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- Account Balance
- Loan Cancellation/Discharge
- Default
- Collection Practices
- Repayment Plans/Amounts

Cases represent all loan and school types. Through FY 2002, problems have involved 36 active and 16 inactive guaranty agencies, 742 lenders and 2,597 schools. The oldest disputed loan goes back to 1967, although most cases involve loans in repayment an average of six years.

Effectiveness of the case activity is measured through customer comment and through an OMB-approved weekly survey. Borrowers whose cases closed recently are chosen at random and asked to respond to questions on ombudsman service accessibility, knowledge of representatives, timeliness of resolution, level of satisfaction with resolution and overall Ombudsman service. On a scale of 1-5, where 1 is the *highest* possible rating, the FY 2002 rating from customers with single-issue questions was 1.82. The higher rating of 1.55 for research cases reflects borrower appreciation for the in-depth assistance the specialists provide.

Case issues and outcomes will continue to be a resource for internal and external evaluation of systemic processes. The overall experiences can also be used in considering proposals for reauthorization of the student loan programs.

### LEGISLATIVE RECOMMENDATIONS

The Department of Education continues to believe that routine data matches with the Internal Revenue Service (IRS) would strengthen the financial integrity of the student aid programs. The matches would allow the verification of applicant income information submitted on the student aid form (the FAFSA) with information from official income tax records. On August 9, 2002, the Secretary of Education, the Secretary of Treasury and the Director of the Office of Management and Budget sent proposed legislation to Congress to allow for these data matches. In addition, the Administration's FY 2004 budget request to Congress assumed that it would have the authority to conduct such a match.

FSA will continue to make suggestions and offer advice on any legislative recommendations as the Department of Education develops the Administration's HEA Reauthorization proposal.



## **POSITIONING FOR THE FUTURE**

As noted above, the Higher Education Amendments of 1998 outlined four goals to guide FSA in administering the Department's student aid programs. According to the legislation, FSA's goals were to (1) Improve Service, (2) Reduce Costs, (3) Improve and Integrate Support Systems, and (4) Develop an Open, Common, and Integrated Delivery and Information System.

The introduction of a new Chief Operating Officer of FSA late in September 2002 provided a natural opportunity for FSA to conduct a thorough and objective review of its' business operations, system integration and business process reengineering program. After a careful and critical review of the four goals against the strategic drivers that influence FSA's ability to efficiently and effectively deliver student aid, management repositioned the four goals into five strategic objectives to ensure appropriate management focus and operational readiness. These are: (1) Integrate FSA systems and Provide New Technology Solutions; (2) Improve Program Integrity; (3) Reduce Program Administration Costs; (4) Improve Human Capital Management; and (5) Improve Products and Services to Provide Better Customer Service.

From these five objectives, management formulated and adopted the FY 2003 Performance Plan, which identifies 18 action items which are supported by very specific milestones and initiatives to guide the organization through the year, a copy of which is attached as Appendix C. Two core priorities in the Plan are the attainment of a clean audit and FSA's removal from the General Accounting Office high-risk list. The former was achieved in January 2003, and the emphasis in 2003 is on institutionalizing the process and procedures so that clean audits are a routine occurrence. Of the remaining action items, precedence was given to those that directly contribute to FSA's removal from GAO's high-risk list.

Today, FSA's FY 2003 work priorities remain the removal of student aid programs from the GAO high-risk list followed by the integration of the remaining legacy systems and their ultimate migration to newer technology solutions, and the development and implementation of workforce alignment initiatives to support FSA performance goals and the Department's One-ED objectives. FSA's success in implementing these action items will directly contribute to greater employee productivity, accountability, and morale, better operational systems, increased program integrity, reduced program costs, and, ultimately, improved products and services to our customers.

There were many successes in FY 2002. Based on these successes, eleven bonuses were awarded to the former Chief Operating Officer (COO) and the senior managers in FSA. A bonus of \$55,280 was awarded to the former COO. Ten bonuses were awarded to other senior managers of FSA. These awards ranged from \$7,437 (7.25 percent of annual salary) to \$23,321 (16.87 percent of annual salary), with a median award of \$15,009 (14.37 percent of annual salary). In FY 2003, FSA is positioned to provide more efficient



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and effective delivery of student aid programs, better service to our customers, lower cost to taxpayers, and a more enriching environment for our employees.